

***Chapter 13***  
***Development of***  
***Charge-Out Rates***

This chapter addresses the development of charge-out rates for computer use, CADD, equipment, copies, etc.

### **Basic Requirements**

In order for in-house equipment usage or other costs to be billable directly to a WSDOT project, several conditions must be met. (This excludes mileage for automobiles and light trucks which must be billed out at the WSDOT Travel Directive D 13-50 rate per mile, or the actual rate, whichever is less.)

1. Maintenance and summarization of accounting records sufficient to prove the actual rate(s) for the in-house cost(s) to be charged.
2. Fully depreciated equipment requires a special advance agreement to allow any charge on the agreement.
3. Consistent application of charging the same in-house cost rates directly to all jobs by the consultant.

This means a record of total usage both direct and indirect (total hours, items, miles, and so forth) must be kept and total associated costs must be kept. Total costs divided by total usage would equal the appropriate rate. Only the total indirect usage is acceptable for inclusion in the consultant's overhead rate.

Example:

For copies to be charged directly to an agreement, the consultant must maintain a record of the total copies used per year and divide this into total copier expenses. This may include copier lease or depreciation, repair and maintenance, supplies and labor. If any of the expenses are already in the consultant's overhead schedule, then the overhead schedule would have to be credited for the direct project cost amounts.

### **Market Rates Are Not Acceptable**

It is neither accurate nor acceptable to use a market rate as a charge rate. Nor to then credit overhead for the amount charged out on all agreements for two reasons:

1. Market rates are not actual cost because they include a profit.
2. The consultant's jobs may not identify all usage.

## Costs Not Allowed by Agreement (Contracts) or Clients

Consultants may encounter situations where a client does not allow the firm to bill all direct nonsalary costs incurred by the firm while working on a project. The situation may also exist where agreement dollar limits are being reached by the consultant, requiring them to make the choice of billing labor costs versus direct nonsalary costs.

In cases like those described above, those costs associated with the nonbilled direct nonsalary costs cannot be put into the firm's overhead. This would result in an inflated overhead rate being applied to WSDOT agreements. Any such costs identified by the auditor will be eliminated from the overhead account values, and the rate adjusted accordingly.

If you need more information on this subject, please contact the Audit Office.

## FARs Discussion on Equipment Use Rates and Costs

In regard to rates charged for fully depreciated equipment, FAR 48 CFR 31.109 Advance Agreements, Paragraph (h) states that "Examples of costs for which advance agreements may be particularly important are — (2) Use charges for fully depreciated assets;"

In regard to rates charged for construction equipment, FAR 48 CFR 31.105, Construction and architect-engineer contracts, Paragraph (d) states that "Except as otherwise provided in this paragraph, the allowability of costs for construction and architect-engineer contracts shall be determined in accordance with Subpart 31.2."

Subparagraph (2) goes on to say "Construction equipment as used in this section, means equipment (including marine equipment) in sound workable condition, either owned by or controlled by the contractor or the subcontractor at any tier, or obtained from a commercial rental source, and furnished for use under Government contracts."

(i) "Allowable ownership and operating costs shall be determined as follows:"

(A) "Actual cost data shall be used when such data can be determined for both ownership and operations costs for each piece of equipment, or groups of similar serial or series equipment, from the contractor's accounting records. When such costs cannot be so determined, the contracting agency may specify the use of a particular schedule of predetermined rates or any part thereof to determine ownership and operating costs of construction equipment (see subdivisions (d)(2)(i)(B) and (C) of this section). However, costs otherwise unallowable under this part shall not become allowable through the use of any schedule (see 31.109(c)). For example, schedules need to be adjusted for Government contract costing purposes if they are based on replacement costs, include unallowable interest costs, or use improper cost of money rates or computations. Contracting officers should review the computations and factors included within the specified schedule and ensure that unallowable or unacceptable computed factors are not allowed in cost submissions."

- (B) “Predetermined schedules of construction equipment use rates (e.g., the Construction Equipment Ownership and Operating Expense Schedule, published by the U.S. Army Corps of Engineers, industry sponsored construction equipment cost guides, or commercially published schedules of construction equipment use cost), provide average ownership and operating rates for construction equipment. The allowance for operating costs may include costs for such items as fuel, filters, oil, and grease; servicing, repairs, and maintenance; and tire wear and repair. Costs of labor, mobilization, demobilization, overhead, and profit are generally not reflected in schedules, and separate consideration may be necessary.”
- (C) “When a schedule of predetermined use rates for construction equipment is used to determine direct costs, all costs of equipment that are included in the cost allowances provided by the schedule shall be identified and eliminated from the contractor’s other direct and indirect costs charged to the contract. If the contractor’s accounting system provides for site or home office overhead allocations, all costs which are included in the equipment allowances may need to be included in any cost input base before computing the contractor’s overhead rate. In periods of suspension of work pursuant to a contract clause, the allowance for equipment ownership shall not exceed an amount for standby cost as determined by the schedule or contract provision.”

- (ii) “Reasonable costs of renting construction equipment are allowable. . .”

In regard to the prohibition from including direct costs in overhead, FAR 48 CFR 31.202 Direct Costs, states that

- (a) “A direct cost is any cost that can be identified specifically with a particular final cost objective. No final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other final cost objective. Costs identified specifically with the contract are direct costs of the contract and are to be charged directly to the contract. All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly.”
- (b) “For reasons of practicality, any direct cost of minor dollar amount may be treated as an indirect cost if the accounting treatment —
  - (1) Is consistently applied to all final cost objectives; and
  - (2) Produces substantially the same results as treating the cost as a direct cost.”

## **Summary**

If you want to charge out computer time, photocopies, CADD, equipment, etc., have:

- The rate methodology documented.
- Costs used in the methodology supported in your records.
- Be consistent in charging directly to projects.
- Include only the net amount (after revenues) as indirect costs in overhead.

The costs billed in all cases will be reviewed by the auditor for reasonableness, allowability, and allocability to the WSDOT project.

Regardless of how billing rates are determined, all costs applicable to the equipment being billed must be removed from overhead accounts. This includes maintenance, depreciation, storage, insurance, and transportation costs.

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